

OPINIONS ON THE ECONOMICS OF SECURITY - TRENDS AND OPPORTUNITIES FOR ROMANIA

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Abstract: *Globalisation, the unprecedented development of the Chinese economy, Russia's aggressiveness by using natural resources as weapon/ instrument of promoting its foreign policy interests, the sovereign debt, the unprecedented budget deficit, the trade balance gaps in many countries as well as a high unemployment rate were reasons why western countries reconsidered the role of the economy in national and international security. Therefore, the resources allotted by the state for protecting/securing the economy become unproductive, similarly to those provided to supply and stimulate the economic flows. According to this paradigm, also the budget funds allotted to institutions related to national security, justice, public order, fiscal administration as well as those allotted to private companies to protect their investments and benefits are no longer funds for consumption, as they become essentially productive.*

1. Introduction

The beginning of the 21st century witnessed, after the 9/11 events in 2001, a radical change in the way the countries perceived the threats to the national and international security and made them rethink and quickly adapt to new realities.

The almost generalised and obviously unproductive optimism emerging after the Cold War was brutally stopped when the NATO members, individually or as allies, faced several crises and challenges to their own security, caused not only by the new dimension of terrorism, but also by many global changes.

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budget deficit, the trade balance gaps in many countries as well as a high unemployment rate were reasons why western countries reconsidered the role of the economy in national and international security.

Traditionally, the way the link between economy and security was viewed was a simplistic one, that is, the economic played a major role in satisfying mainly budgetary needs of the national or allied defence, while some activities, related to the national security, such as the defence industry, could contribute to the economic development of the countries. In other words, the long-term efficacy of “hard power” policies is directly proportional to the capacity of the economies to provide resources for the development of the defence sectors.

2. Literature

The present complexity of the security environment, the unprecedented diversification of risks and threats to the countries’ and alliances’ stability, their diffuse character led to a significant rethinking of the role of the “soft power” concept in ensuring the security, defined by Dick K. Nanto, an industry and trade specialist, in “Economics and National Security: Issues and Implications for U.S. Policy” as “the ability of a country to generate and use its economic power and to protect its national values”. The author details the concept as follows: “This, in turn, depends on long-term factors that contribute to economic growth and increase the total resource base available not only for defense but to provide economic security in the form of income and business opportunities for individuals. Economic growth depends on building human capital. It also depends on science, technology, and innovation. In addition, the increased integration of the US economy into global markets means that U.S. security also depends on global economic stability, on a balanced international economy, the ability to coordinate key economic policies with other leading nations, and deterring threats to the international financial system. Soft power also enables the country to project American values through diplomacy, economic assistance, fostering democracy and human rights and promoting sustainable development abroad”.¹

The expanded definition proposed by Dick K. Nanto reveals, besides the central role of the economy in ensuring the state’s security, another essential factor: *the need of protection, of security in the economy*. Today there is consensus among economists that a successful sustainable development vitally depends on stability and social order in order to

¹ Dick K. Nanto, “Economics and National Security: Issues and Implications for U.S. Policy”, Congressional Research Service, Washington, DC, 2011, Summary.

guarantee the private property right and the distribution of (especially public) goods. So, the economic outcome may be seized, stolen, inequitably distributed or diverted not to meet the main purpose: the population's welfare.

Therefore, the resources allotted by the state for protecting/securing the economy become unproductive, similarly to those provided to supply and stimulate the economic flows. According to this paradigm, also the budget funds allotted to institutions related to national security, justice, public order, fiscal administration as well as those allotted to private companies to protect their investments and benefits, are no longer funds for consumption as they become essentially *productive*.

While dealing with the need of security in the economy, Prof. Martin C. McGuire from the University of California-Irvine finds three types of agencies/institutions directly involved in the security field:

- institutions in charge of external security: the country's protection against other countries;
- institutions in charge of the country's security against internal threats;
- institutions in charge of enforcing the internal laws concerning the individuals' and population's security: protection of the citizens from each other.

Further in his study, McGuire identifies three stimulating effects of the activities of the above institutions on the economic development:

- "all three kinds of security activities "enhance" the productivity of a society and, therefore, are themselves 'productive';
- all three support (different aspects of) the particular redistributive ruling regime which happens to hold power on their country and, therefore, they sustain the existing redistribution. That is, all governance is in some fashion and to some degree redistributive, and security forces, in the broadest sense of the term, are essential to enforcement of redistribution – redistribution within their society;
- all three kinds of security absorb resources themselves: (i) because their productive functions are necessary and useful and of service to the entire society; (ii) also because every regime in power, even the most popular, must have the strength to exact the taxes necessary to provide the forces which keep it from losing power; and (iii) moreover because of the coercive power they possess, security forces are inherent rent garnishes"².

² Martin C. McGuire, "The Security Factor in the Political Economy of Development", International Monetary Fund Working Paper, March 1998, pp. 6, 7.

3. Strategic benchmarks. Points of view

The unprecedented dynamics of the terrorist threats after 9/11, as regards both the frequency of attacks and the methods and targets selected, has turned terrorism into a major factor of impact on the national or even global economy, on domains such as transport – especially air and sea ones – international trade, capital flows, etc. Governments are facing today huge direct costs of destructions caused by terrorism to public infrastructure of all kinds, as well as those needed for more specialized emergency services³.

At the same time, the terrorist attacks influence indirectly the economies by changing the investors' perception of the levels of market or operation risk when making decisions, as well as by causing discontinuity in the economic processes.

The effects of terrorism on the countries are reversely proportional to their development level. Generally, in the developed countries, the macro-economic effects of terrorism are low and short-lived, as the diversified economies have a higher ability to absorb shocks by quick relocation of capital and labour in order to confine and neutralize the losses. But, in the case of poorly developed/undiversified economies, the macroeconomic impact of terrorism on scale could be devastating, thus affecting severely the GDP and, implicitly, the living standard of the population, with unpredictable repercussions.

Besides the direct and indirect costs caused by terrorism, an important aspect to be considered is the economic effect of the anti-terror policies which the states and the companies implement and, of course, fund.

The security measures taken by economic agents to protect their investments and to diminish the risk require funding for acquiring security equipment, post-attack intervention means and more action to prevent/deter some attempts against supply and production flows.

The economic impact of the anti-terror measures, called in literature “costs of terrorism”, is shown by the activities carried out both in the public

³ “In the history of terrorism, 9/11 incurred unprecedented costs to firms and the US government estimated to lie between US\$ 25-60 billion. In contrast to this outlier, ‘conventional’ attacks will incur much more limited costs”, cf. Tilman Bruck, Friedrich Schneider, Marie Karaisi, “A survey on the Economics of Security with Particular Focus on the Possibility to Create a Network of Experts on the Economic Analysis of Terrorism and Anti-Terror Policies”, Deutsches Institut für Wirtschaftsforschung, Berlin, 30 June 2007, p. 2.

sector and in the private sector in order to protect themselves against terrorism or prevent it.

In practice, the defensive measures are concrete measures consisting of investments in security equipment/technology as well as indirect ones consisting of procedures/standards of operation for eliminating the risks (stock building, transport alternatives, alternative markets, etc.).

The preventive or “proactive” measures are meant to deter or hinder terrorist attacks. They aim at breaking the funding chains for terrorist actions, for supplying the terrorist organisations with weaponry and fighting equipment, and for recruitment. Such measures are mainly characteristic of the states, as they imply substantial funding and specialized capabilities, such as intelligence operations or military response.

In conclusion, while defensive measures include a wide range of goods (equipment/technology) for protecting private investment, the prevention (proactive) measures concern the public goods.

As regards the positive effects of the anti-terror policies on the economic domain, they have been highlighted by the evolution in the security and defence sectors after the 9/11 attacks.

Therefore, “the military response to the attacks of 9/11 reversed the declining trend in military expenditure which had set in with the end of the Cold War.

According to the SIPRI, global military spending increased by 18% between the beginning of 2002 and the end of 2003, with the US, Japan, the UK, France and China accounting for 64% of the world market (note that the US alone spends 47% of the global total). Yet, does not expect this to last, apart from potentially in the US where defence spending has increased by over 60% in the past ten years, amongst others for the reason to combat global terrorism. Further, given new characteristics of security challenges, particularly embodied in asymmetric warfare against a clandestine enemy, military expenditure is now demanding more flexible, responsive and mobile forces. Thus, the military industry will have to adjust its products and services in order to realise this increased demand”⁴.

The security industry in contrast appears to be experiencing sustainable growth. Available estimates put the private security industry’s turnover at between US\$ 100 billion and US\$ 120 billion worldwide⁵.

⁴ Richard Sykes, “The Defence Industry in the 21st Century”, Price Waterhouse Cooper, 2005, at http://www.pwc.pl/en/publikacje/defence_industry_ads.pdf

⁵ Cf. Tilman Bruck, Friedrich Schneider, Marie Karaisi, “A survey on the Economics of Security with Particular Focus on the Possibility to Create a Network of Experts

While dealing with this issues, Barrie Stevens wrote in his paper on “Factors Shaping the Demand for Security Goods and Services”, presented at the Forum for the Future on the Security Economy, held in Paris, 2004, that “the largest share in accounted for by the United States, although other OECD countries have sizeable security industries as well. For example, Germany’s is thought to be around US\$ 4 billion and France’s and the United Kingdom’s around US\$ 3 billion. There is little evidence within the industry of a major upsurge in spending on security since 9/11, however, longer-term data suggest healthy growth in turnover in the order of 7-8% annually, easily outstripping average annual economic growth rates. Prospects for some segments, including biometrics, radio frequency identification (RFID) technologies and computer security are particularly favorable. But terrorism is not the sole driver of the security industry; an increasing trend in organized crime, perceptions of increased personal insecurity (ordinary crime has actually fallen since the mid-90s) and the characteristics of the global economic system, which make protection more necessary spur the growth of the security industry and consequently not all growth effects can be attributed to terrorism”⁶.

4. Romania and security resources

In Romania, the perception of some security risks was assessed by the Romanian Institute for Evaluation and Strategy (IRES) by means of an opinion survey of 1446 respondents, with an error margin of 2.6%.

The survey reveals that in our country the fear of terrorism is ranked the fifth by the population’s perception (53%) below other fears such as the children’s future (24%), murders and crimes (83%), prices (79%), illness (74%) and social unrest (69%). According to the IRES surveys, 46% of the respondents mentioned the fear of a regional war⁷.

As regards the impact of the in security factors identified by IRES on the security industry, we easily notice that at least three of them – terrorism threats, murders and crimes, and fear of regional war – may justify the need of investments in military equipment and technologies or in the

on the Economic Analysis of Terrorism and Anti-Terror Policies”, Deutsches Institut für Wirtschaftsforschung, Berlin, 2007, p. 42

⁶ Barrie Stevens, “Factors Shaping the Demand for Security Goods and Services”, paper presented at the OECD Forum for the Future on the Security Economy: What Trade-Offs in an Open and Mobile Society?, Paris, 2004.

⁷ www.ires.ro/uploads/articole/ires-analize-de-perceptie-a-unor-riscuri-de-securitate-si-respectarea-unor-drepturi-cetatenesti.pdf.

protection/surveillance of objectives and personnel as well as in guarding and protection workforce.

Also, this is confirmed by the evolution of the firms specialized in security services; in Romania, in mid-2016 there were over 1600 guarding firms, over 2000 firms specialized in security systems, accounting for 100,000 security-qualified employees and a total turnover of 3 billion lei⁸.

But the statistics provided by the Confederation of European Security Services (COESS), an organisation including 24 private security agencies from 23 European countries (of which 19 EU member countries), reveal that in Europe there are now over 60,000 registered private security companies with over 2.3 million employees and an annual turnover of about 34.2 billion euros; this means that Romania is not ranked among the top countries but reveals the growing potential of this industry⁹.

Another essential domain for satisfying the increasing demand for security is the defence industry. Looking at the evolutions, or rather involutions, in our country in this domain, we may say they are dramatic. While in 1989, the national defence industry included about 100 companies accounting for 130,000 employees, now there are only 22 production capacities in operation, of which 12 included in the ROMARM National Company. Romania's exports of weaponry and fighting equipment have declined significantly, from about 800 million dollars in 1989 to only 106.1 million dollars in 2012.

In spite of a slight increase in exports of weaponry and fighting equipment after 2012, in 2015 they accounted for only 0.25% of all exports and amounted to 57 billion euros; Romania's share in this market is only 0.44%¹⁰.

The causes of the Romanian industry's decline were many, often systemic, such as: obsolete technological and human resources, regulatory inconsistency, huge arrears due to the local, social and state budgets, sometimes exceeding the companies' assets, unpredictable state funding and the absence, until 1916, of a national strategy in this field for linking the industry to the real needs of the Ministry of National Defence and

⁸ Cf. Iordache Constantin, "Iluzia securității – mit sau realitate", available at www.securitateiromania.ro

⁹ www.coess.org; Key Figures.

¹⁰ New Strategy Centre, "Apărare și Industrie", București, 2016, p. 7

strengthening the partnership between the state and the private security industry.

The analysis of the present state of the Romanian security industry based on an adequate approach to the present geostrategic evolutions, including the diversification of probable threads (hybrid, asymmetric or even military), which generate an increasing need of security for citizens and states, reveals several opportunities that may contribute – if properly approached – to improving the ability to manage security risks and threats to Romania as well as to the future economic development.

Not intending to largely present the opportunities, the following ones seem to be more important:

- Implementation of a national programme for investments in the security industry in order to procure equipment and technologies for making competitive products able to meet the interoperability and maintenance requirements of the NATO structures.
- Stronger public-private partnership and speeding-up of R&D for double-purpose (civilian and military) equipment and technologies.
- Merger of some production capacities from the defence industry for diminishing the operation spending and for ensuring integrated management of production, especially the exported one.
- Involvement of the specializes industry – both private and state-owned companies – in bilateral or regional partnerships for know-how transfer, ensuring the trading continuity and predictability as well as for creating joint defence capabilities together with partner countries.
- Synchronisation of the production of the Romanian security industry with the needed endowment of the institutions pertaining to the defence, public order and national security domains.

5. Conclusions

We may conclude that the security industry has an undervalued potential within Romania's economic policies and, therefore, needs quick rethinking. If we continue to consider the defence industry as a domain existing outside the security industry (often confined to guarding and protection firms and producers of surveillance and alarm systems), not an intrinsic one, is not only a theoretical error, but an approach that might

affect (due to the praxiological repercussions) the country's security interests¹¹.

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¹¹ "Historically, the security and defence industry have been clearly separate sectors, the first mainly providing goods and services to the private sectors and households, the latter, mainly supplying goods and services to governments. Yet, in the light of new security challenges, these sectors are more and more converging, which also explains why these sectors will be treated jointly in this report. The security economy encompasses all those products and services which are concerned with preventing, reducing and mitigating harm to life and property due to ordinary and organized crime, which incorporates defence and counterintelligence, the public police force, private policing, armed guards and security technology providers". Cf. Barrie Stevens, "Factors Shaping the Demand for Security Goods and Services", paper presented at the OECD Forum for the Future on The Security Economy: What Trade-Offs in an Open and Mobile Society?, Paris, 2004.

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